

# SUMMARY ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Cedillo Analyst: Roger Lackey Bill Number: AB 1992

Related Bills: See Prior Analysis Telephone: 845-3627 Amended Date: 06-22-2000

Attorney: Patrick Kusiak Sponsor:

**SUBJECT:** FTB Disclosure Of Tax Return Information To Charter Cities If Written Agreement

  X   DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as amended May 22, 2000.

       AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

  X   AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended May 22, 2000.

       FURTHER AMENDMENTS NECESSARY.

  X   DEPARTMENT POSITION CHANGED TO No position.

  X   REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED May 22, 2000, STILL APPLIES.

       OTHER - See comments below.

### SUMMARY OF BILL

Under the Administration of Franchise and Income Tax Laws (AFITL), this bill would permit the Franchise Tax Board (FTB) to disclose certain specified income tax information to tax officials of charter cities. Disclosure would have to be made under a written agreement and would be limited to information regarding taxpayers both with an address on record with FTB within the charter city and with income from a trade or business reported to the FTB. The information that may be provided is a taxpayer's name, address, social security or taxpayer identification number, and business activity code. Use of the information would be limited to employees of the taxing authority of a charter city.

### SUMMARY OF AMENDMENT

The June 22, 2000, amendment would specify that the charter city could request information on taxpayers with an address as reflected on the FTB's records within the jurisdictional boundaries of the charter city, rather than filing a tax return within the city. The amendment also would make a technical language change substituting the term "report" for the term "claim."

The amendment resolved the department's implementation consideration relating to how to identify a business within a charter city for purposes of reporting to the charter city. The amendment also resolved the technical concern regarding the "reporting" of income rather than the "claiming" of income. However, two implementation concerns have not been resolved and are included below.

In addition, the departmental costing provided in the department's analysis of the bill as amended May 22, 2000, is included. Except for the discussion in this analysis, the department's analysis of AB 1992, as amended May 22, 2000, still applies.

#### Board Position:

<u>      </u> S	<u>      </u> NA	<u>  X  </u> NP
<u>      </u> SA	<u>      </u> O	<u>      </u> NAR
<u>      </u> N	<u>      </u> OUA	<u>      </u> PENDING

#### Legislative Director

#### Date

Johnnie Lou Rosas

7/7/00

### Implementation Considerations

This bill would allow the department to share certain information, including business activity codes, with charter cities. A large number of the business activity codes used by the department are obtained from Internal Revenue Service (IRS) data shared with the department. Federal law and IRS policy require that information obtained from the IRS by the department not be disclosed or be used in any manner not authorized. Currently, the department's authority is to use information obtained from the IRS to resolve state income tax issues. As a result, if the department uses the business activity codes or other information received from the IRS to select and gather information that is then to be reported to the charter city under the provisions of this bill, the department would exceed its authority to use IRS information. Moreover, reporting this information to the charter city would likely be interpreted by IRS as an unauthorized use of IRS information, and thus would be a violation of both federal law and the terms of FTB's agreement with IRS.

Current departmental systems do not have the ability to provide the information necessary to comply with the provisions of this bill without using federal data. To comply with the bill, the department would have to create a new database and process to capture the information that could be reported to the charter city. Without the new database and process, the department would not be able to provide the information to the charter city. In addition, the department would have no other use for this database and process beyond reporting the information to the charter city.

### Departmental Costs

Since the department's current programs do not capture the necessary data to comply with this bill, and the department cannot use the federal information currently received for the reasons stated under Implementation Considerations, the department would need to develop a new process. To comply, the department would revise the Schedule CA and instructions to include a business activity code. Department staff would scan the Schedule CA and key the business activity code into a database where the information would be retained for future reporting to the charter city.

The department would incur significant costs related to creating the new process, additional employee hours, and purchasing equipment. In the year of implementation, it is estimated that departmental costs would be approximately **\$2 million** with an expected **29 personnel years (PYs)**. For the year following implementation, the departmental costs would be **\$849,172** with an expected **25.5 PYs**.

### BOARD POSITION

No position.

At its July 5, 2000, meeting, the Franchise Tax Board agreed to take no position on this bill.